



RAILROAD COMMISSION OF TEXAS

HEARINGS DIVISION

PROPOSAL FOR DECISION

OIL AND GAS DOCKET NO. 20-0283458

HEARING ON THE APPLICATION OF STONEGATE OPERATORS, INC. FOR UNRESTRICTED RENEWAL OF ITS P-5 AND TO CONTEST THE STAFF DETERMINATION THAT ITS P-5 CANNOT BE RENEWED BECAUSE IT HAS NOT COMPLIED WITH THE INACTIVE WELL REQUIREMENTS OF STATEWIDE RULE 15

APPEARANCES

FOR STONEGATE OPERATORS, INC.

Lloyd A. Muennink, Attorney at Law
Roland Baker, Geologist
Gordon Johnson, Agent

FOR THE RAILROAD COMMISSION OF TEXAS:

Kristi M. Reeve, Staff Attorney, Enforcement Section
Maria Castro, Manager, P-5 Department
Olin Macnamara, Geoscientist, Field Operations Division

PROCEDURAL HISTORY

Notice of Hearing:	July 29, 2013
Hearing on the merits:	October 31, 2013
Transcript received:	May 29, 2014
Heard by:	Terry J. Johnson, Legal Examiner Paul Dubois, Technical Examiner

SUMMARY

Operator challenges staff determination that renewal of its P-5

Organization Report should not be approved due to the operator's failure to comply with the inactive well requirements of Statewide Rule 15. It is recommended that the Commission deny renewal of the P-5 and order the operator to bring the wells into compliance.

EVIDENCE PRESENTED

STAFF'S CASE: NON-COMPLIANCE AND FALSE FILING

Maria Castro, manager of the Commission's P-5 Financial Assurance Unit, testified that Stonegate Operators, Inc. (Stonegate) is the operator of record for 47 inactive wells that fail to comply with the requirements of Statewide Rule 15.¹ Ms. Castro stated that the P-5 Unit notified Stonegate in writing on April 19, 2013, and again on June 4, 2013, that these non-compliant wells would prohibit renewal of the operator's P-5.

Ms. Castro testified that all of the wells remained out of compliance with Rule 15 at the time of hearing. Stonegate's brief cross-examination left the credibility of Ms. Castro's testimony undisturbed.

Olin Macnamara, staff geoscientist with the Commission's field operations section, testified that a Form W-3C (Certification of Surface Equipment Removal for an Inactive Well) was submitted on May 24, 2013, certifying that Stonegate had disconnected electrical service to, purged production fluids from, and removed all surface equipment associated with some 43 inactive wells. Included within this group were Wells No. 1 and No. 2 on Stonegate's West (04511) lease in Duval County.

Mr. Macnamara testified that on October 3, 2013, District Office field operations personnel conducted an inspection of Stonegate's West lease. This inspection revealed that an array of surface equipment remained connected to Wells No. 1 and 2. Photographs admitted into the record show two pumpjacks on site, together with two 500-barrel tanks and gunbarrel, racked tubing and sucker rods. Also present was a discarded rusted-out tank.

Stonegate's brief cross-examination of Mr. Macnamara left the credibility of his testimony undisturbed.

¹ 16 TEX. ADMIN. CODE § 3.15 (Surface Equipment Removal Requirements and Inactive Wells) Attached Appendix 1 identifies the wells at issue. Two of the identified wellbores are dual-completion wells. Two wells no longer involved in the case are redacted from Appendix 1.

STONEGATE'S CASE

Consultant Roland Baker testified that his firm was coordinating re-tests of nine Stonegate wells, each of which had failed their respective wellbore integrity tests. Mr. Baker stated that two of these wells had failed the re-test: No. 2 and No. 50 on the White, P.E., Acct. # 1 (01131) lease.

Mr. Baker further testified that, because of resistance by the surface owner, he has been unable to re-test Well No. 7 on the Gonzales, B.P. Unit -A- (043267) lease. Finally, he stated that no re-tests had been conducted on the other six wells. Counsel for Stonegate asserted that Stonegate was not the operator of Well 38 on the Bishop Cattle Co. (05332) lease, but Mr. Baker did not testify in support of that claim.

Gordon Johnson is the chief executive officer of Bayside Petroleum Company, Inc., an entity that owns an interest in Stonegate's wells. "I actually provided the funds to buy the majority of the wells that are on this—Stonegate's P-5," he said. Mr. Johnson stated he was testifying as Stonegate's agent.

Mr. Johnson testified that over \$100,000 has been spent reworking Wells No. 1 and No. 2 on the West (04511) lease, as well as the other wells in a seven-well recompletion project. He stated that West Wells No. 1 and No. 2 would soon be in production. "Ninety to 120 days maximum," he testified.

Stonegate offered no other proof.

DISCUSSION AND RECOMMENDATION

NON-COMPLIANCE

Texas law expressly conditions renewal of a P-5 Organization Report on an operator's compliance with the requirements of Statewide Rule 15.² Among other things, the rule establishes a one-year deadline for plugging an inactive well. While there are circumstances under which an operator may obtain an extension of time, an operator must either re-establish production, obtain a plugging extension or plug the well by the deadline.

²TEX. NAT. RES. CODE § 89.022(c)

The evidence in this case shows that Stonegate is the operator of record for wells that do not meet the requirements of Rule 15. For its part, Stonegate did not challenge this evidence but instead offered testimony concerning its efforts to re-test a portion of the wells. The testimony that the West No. 1 and No. 2 wells would be brought into production is not worthy of credence.

A list of the wells involved, identifying the compliance shortfall of each, is attached as Appendix 1, which is hereby incorporated by reference for all purposes.

FALSE FILING

Statewide Rule 15 also requires an operator to certify that all of its inactive wells conform to a chronologically progressive surface clean-up regime. After a well has been inactive for one year, the operator must disconnect electrical service. After five years, the operator must purge production fluids from all surface equipment. After ten years, the operator must remove all surface equipment. An operator certifies compliance with these requirements by filing Commission form W-3C.

On May 24, 2013, Johnny Griffiths, with Stonegate's authorization, filed a W-3C certifying the removal of all surface equipment associated with 43 of Stonegate's wells. Included within this group were the No. 1 and No. 2 wells on Stonegate's West (04511) lease in Duval County.

On October 3, 2013, Commission field operations personnel conducted an inspection of the West lease. This inspection found that pumpjacks, tanks, a gunbarrel, rods and tubing associated with Wells No. 1 and No. 2 had not been removed from the property. Stonegate did not challenge or contradict this evidence.

The examiners find that Stonegate falsely reported the removal of surface equipment associated with the West wells.

The examiners recommend that renewal of the Stonegate's P-5 be denied.

FINDINGS OF FACT

1. Stonegate Operators, Inc. (Stonegate) holds Operator Number 823814.


2. Stonegate is the operator of record for the oil and gas wells identified on attached Appendix 1, which is hereby adopted and incorporated by reference for all purposes.
3. On or about June 4, 2013, the Commission's P-5 Financial Assurance Unit notified Stonegate that renewal of the operator's P-5 Organization Report would be denied for failure to meet the inactive well requirements of 16 TEX. ADMIN. CODE § 3.15 (Statewide Rule 15).
4. Stonegate timely requested a hearing to contest the determination that its wells fail to meet the requirements of Statewide Rule 15.
5. The oil and gas wells identified on Appendix 1 fail to meet the requirements of Statewide Rule 15 for the reasons stated therein.
6. On or about May 24, 2013, Stonegate authorized Johnny Griffiths to execute and file with the Commission a report on form W-3C (Certification of Surface Equipment Removal for an Inactive Well) certifying, *inter alia*, that all surface equipment associated with Wells No. 1 and No. 2 on Stonegate's West (04511) lease in Duval County, RRC District 04, had been removed.
7. The removal of surface equipment associated with Wells No. 1 and No. 2 on Stonegate's West (04511) lease is a material fact.
8. On or about October 3, 2013, District Office field operations personnel conducted an inspection of Stonegate's West (04511) lease and found that surface equipment associated with Wells No. 1 and No. 2, including pumpjacks, two 500-barrel tanks and gunbarrel, racked tubing and sucker rods, were present on the property.
9. There is no evidence that Stonegate had at any time removed the surface equipment associated with Wells No. 1 and No. 2 on the West (04511) lease.
10. Stonegate made its May 24, 2013 report knowing that all surface equipment associated with Wells No. 1 and No. 2 on the West (04511) lease had not been removed.

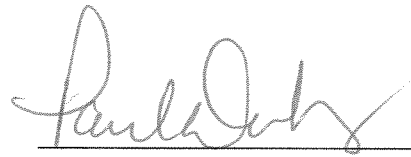
CONCLUSIONS OF LAW


1. Stonegate Operators, Inc. has received notice and an opportunity for hearing regarding compliance with TEX. NAT. RES. CODE §§89.021 - 89.030 and 16 TEX. ADMIN. CODE §3.15.
2. Stonegate Operators, Inc. has failed to comply with the requirements of TEX. NAT. RES. CODE, Chapter 89, Subchapter B-1 and 16 TEX. ADMIN. CODE §3.15.
3. The P-5 Organization Report of Stonegate Operators, Inc. may not be renewed or approved. TEX. NAT. RES. CODE § 89.022(c).
4. On or about May 24, 2013, Stonegate Operators, Inc. made a report to the Commission knowing that the report was false or untrue in a material fact. TEX. NAT. RES. CODE § 91.143(a)(1)

RESPECTFULLY SUBMITTED on this the 21st day of


July, 2014.


TERRY J. JOHNSON
Hearings Examiner


PAUL DUBOIS
Hearings Examiner

API Number	District	ID Number	Lease Name	Well Number
047 31777	04	175693	MANGEL	1ST
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
				
083 35079	7B	25621	HORNE	1
No approved W-3X on file				
131 03886	04	04511	WEST	1
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 03887	04	04511	WEST	2
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 03888	04	06262	WEST	3
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03913	04	04587	MOODY, L. B. -B-	3 L
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03913	04	04698	MOODY, L. B. -B-	3 U
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03914	04	04587	MOODY, L. B. -B-	4
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03915	04	04587	MOODY, L. B. -B-	5 L
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03915	04	04698	MOODY, L. B. -B-	5 U
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 03916	04	04587	MOODY, L. B. -B-	6 L
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				

O&G Docket No.
20-0283458
Proposal for Decision
Appendix 1

API Number	District	ID Number	Lease Name	Well Number
131 03916	04	04698	MOODY, L. B. -B-	6 U
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 05673	04	01131	WHITE, P. E., ACCT. #1	19
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 05695	04	05332	BISHOP CATTLE CO.	38
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 05722	04	01129	BISHOP CATTLE COMPANY	1 A
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 05727	04	01129	BISHOP CATTLE COMPANY	7
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 05728	04	01129	BISHOP CATTLE COMPANY	8 A
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 05739	04	05332	BISHOP CATTLE CO.	42
No approved W-3X on file				
131 05754	04	05332	BISHOP CATTLE CO.	14
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 05823	04	01133	WHITE, P. E. A/C #4	28
No approved W-3X on file				
				
131 10586	04	02816	WELDER, J. F., HRS. -E-	5A
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 36271	04	01131	WHITE, P. E., ACCT. #1	62
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 80549	04	01129	BISHOP CATTLE COMPANY	3
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 80552	04	01129	BISHOP CATTLE COMPANY	5 H
No approved W-3X on file				
131 80556	04	01129	BISHOP CATTLE COMPANY	33
No approved W-3X on file				

API Number	District	ID Number	Lease Name	Well Number
131 80557	04	01129	BISHOP CATTLE COMPANY	34
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 80558	04	01129	BISHOP CATTLE COMPANY	35
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 80559	04	01129	BISHOP CATTLE COMPANY	36
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 80563	04	01131	WHITE, P. E., ACCT. #1	2
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 80567	04	01131	WHITE, P. E., ACCT. #1	41
No approved W-3X on file				
131 80570	04	01131	WHITE, P. E., ACCT. #1	45
No approved W-3X on file				
131 80573	04	01131	WHITE, P. E., ACCT. #1	50
No approved W-3X on file				
131 80576	04	01133	WHITE, P. E. A/C #4	22
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 80577	04	01133	WHITE, P. E. A/C #4	26
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
131 81533	04	05332	BISHOP CATTLE CO.	12
No approved W-3X on file				
131 81534	04	05332	BISHOP CATTLE CO.	43
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
131 81535	04	05332	BISHOP CATTLE CO.	59
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
131 81537	04	05332	BISHOP CATTLE CO.	61
No approved W-3X on file				
Must resolve Field Operations H-15 failure preventing 14(B)(2) approval				
163 31016	01	05144	WHITWELL	4
No approved W-3X on file				
283 31556	01	13937	MIESCH - ST. KATRINA	1
No approved W-3X on file				
427 00343	04	07449	GONZALES, B. P. UNIT -A-	5
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				

API Number	District	ID Number	Lease Name	Well Number
427 00344	04	043267	GONZALES, B. P., UNIT -A-	7
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
Must resolve UIC H-5 Test issue preventing 14(B)(2) approval				
427 00471	04	060501	GONZALES, B.P., UNIT -A-	3
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
427 00472	04	061298	GONZALES, B.P. UNIT -A-	6
No approved W-3X on file				
457 00188	03	10642	CAMPBELL	2
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
457 30038	03	10085	CAMPBELL, I. J.	3
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
457 30063	03	05924	CAMPBELL	4
Surface equipment must be removed (certify on Form W-3C)				
No approved W-3X on file				
495 80655	08	03283	GULF-JENKINS	2
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				
495 80656	08	03283	GULF-JENKINS	3
No approved W-3X on file				
Must resolve Field Operations H-15 delinquency preventing 14B2 approval				

INSUFFICIENT PROGRESS ON 10-YEAR INACTIVE WELLS: For wells shut-in at least 10 years as of September 1, 2010, operators were given five years to address the surface equipment removal requirements. For your Organization Report renewal on MARCH 1, 2013, Rule 15(i) requires that you be at least 40% complete with this process. Current W-3C records indicate that you have not met this requirement (4% of your phase-in wells show that you have completed the surface cleanup). Your Organization Report renewal cannot be approved until you have met this requirement and have filed the appropriate Commission forms to update our records.